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RUEHAK/AMEMBASSY ANKARA 4020
RUEHBJ/AMEMBASSY BEIJING 1837
RUEHKO/AMEMBASSY TOKYO 1704
RUEHIT/AMCONSUL ISTANBUL 2273
RHEHNSC/NSC WASHDC
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RHEFDIA/DIA WASHDC
RUEKJCS/JOINT STAFF WASHDC
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C O N F I D E N T I A L SECTION 01 OF 02 ASHGABAT 000886

SIPDIS

STATE FOR SCA/CEN, EEB

E.O. 12958: DECL: 07/15/2018

TAGS: [PGOV](#) [PREL](#) [ECON](#) [EINV](#) [EFIN](#) [TX](#)

SUBJECT: TURKMENISTAN: BUSINESS ENVIRONMENT STILL
OBSTRUCTIONIST, BUT FOREIGN BUSINESSMAN TRIES TO MAKE HIS
WAY

REF: A. 07 ASHGABAT 1380

[1](#)B. ASHGABAT 479

[1](#)C. 07 ASHGABAT 1039

Classified By: Charge Sylvia Reed Curran for reasons 1.4 (B) and (D).

[1](#)1. (C) SUMMARY: According to a U.S. information technology expert who has been in Turkmenistan for about one year, the business environment has become more obstructionist. Over the past year, in order to clear deals between his company and Turkmen state agencies, he has encountered increasing layers of bureaucracy simply because he is foreign. This businessman, whose contracts are primarily in the banking industry, laments the lack of trust in that sector and the fact that no one in Turkmenistan's government is working to improve the situation. In his view, a rumored expanded ATM network, which starts in early 2009, will become an expanded domestic ATM network, with no links to the international banking system. The local Caterpillar representative separately agreed with the information technology expert's assessment of the business environment, but added that Caterpillar's business is going well and has gained many private customers. It is clear that promoting a better business investment climate in Turkmenistan will require continued constructive engagement by western governments and companies so that Turkmenistan's government can better understand some of the long-term implications of its policies. END SUMMARY.

MORE BUSINESS OBSTACLES SINCE THE BEGINNING OF THE YEAR

[1](#)2. (C) A U.S. businessman who opened up an information technology company in Turkmenistan (Ref. A) said on July 10 that procedures enacted since the beginning of 2008 have created excessive bureaucracy, limiting the ability to conclude and finalize contracts and restricting business activity. This businessman is quite understandably concerned with the current state of affairs as he has five contracts for consideration at the Commodities Exchange -- one of the levels of bureaucracy. Contracts written in U.S. dollars (about 90 percent of his business) are with state banks and have to be approved through a lengthy chain of command. The list of state agencies with a hand in this process includes: the Ministry of Economy and Development, the Ministry of

Finance, the Ministry of Trade and Foreign Economic Relations and the Cabinet of Ministers. According to the businessman, instituting additional levels of clearances is the brainchild of the Chairman of the Central Bank. (NOTE: He probably meant former Central Bank Chairman Abilov, who was sacked in April (Ref. B). END NOTE.) Reportedly, the original proposal was that all contracts in excess of \$500,000 would be subjected to this clearance procedure. However, President Berdimuhamedov decided that these clearing agencies would review all dollar contracts. Our businessman contact also said that state entities are not managing tenders in a transparent manner. He said, "It's typical that the tenders drag out, and then the 'big guns' like MTS (a Russian firm which has the monopoly on Turkmenistan's cell phone network) come in and offer to do it (and get the contract)."

FINDING CREATIVE WAYS TO GET AROUND OBSTACLES

13. (C) The businessman admitted that he is discouraged by the slow pace of progress when closing contracts. He has started using local entrepreneurs who can function as agents for his company, because local businesses are not restricted by many logistical barriers in the same way foreign businesses are, such as in bringing in shipments and finalizing contracts. He acknowledges that using agents adds additional costs to transactions, but it speeds things up considerably.

MANAT PROFITS CANNOT BE EXPATRIATED: ESPECIALLY PROBLEMATIC IN TECHNOLOGY SECTOR

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14. (C) The businessman is also displeased about regulations barring expatriation of manat contracts profits. This poses a problem for companies that order significant equipment from overseas, such as information technology equipment, and must then pay for the product in dollars.

NO TRUST IN BANKING SECTOR

15. (C) The businessman observed that the "Turkmen put the cart before the horse by focusing on equipment, rather than on building confidence in the banking sector." He explained that all banks, including the National Bank of Pakistan, charge a service charge of one to two percent of the total of each cash withdrawal, in addition to levying monthly fees for simply maintaining an account at the bank. He recommended that post organize a seminar for Turkmen bank directors to understand how banking works and especially how the U.S. banking sector gained the trust of people and commercial concerns.

TECHNOLOGY IN TURKMENISTAN'S BANKING SECTOR: DOMESTIC ATM SYSTEM(S)

16. (C) According to this businessman, the Central Bank is ordering less than 50 automatic teller machines (ATM) from a Swiss company. This ATM network will start in Ashgabat and eventually spread to the provinces, but only link to domestic banks. Two other banks have asked this businessman to help them set up domestic ATM networks. He expects that the networks will be operational by the time redenominated currency is distributed at the beginning of 2009.

ANOTHER BUSINESSMAN CONCURS THAT BUREAUCRACY IS ON THE RISE

17. (C) Another businessman concurs with the U.S. information technology expert's observations. Vladimir Naumov of Caterpillar (Ref. C) said on July 10 that he has also noticed that bureaucracy has increased in the recent past. However, in comparison with Caterpillar's state of business affairs last year, business is booming. Naumov said that Caterpillar has gained many private customers -- especially Turkish and Chinese companies which recently opened in Turkmenistan. He much prefers dealing with private companies rather than

Turkmen state organizations and the layers of bureaucracy that come with them.

18. (C) COMMENT: Promoting a better business investment climate in Turkmenistan will be a multi-year process. While the president has expressed interest in doing what is necessary to attract more foreign business, Turkmenistan's bureaucracy may need to learn new ways of doing things that go against the grain of Turkmenistan's control-oriented system. Turning things around will require continued constructive engagement by western governments and companies so that Turkmenistan's government can better understand some of the long-term implications of its policies. END COMMENT.
CURRAN